Economic and Market Commentary – March 2025

Volatility and uncertainty characterized financial markets in March. For example, the yield on the 10-year U.S. Treasury note started the month at 4.21%, fell to 4.12%, then rose to 4.40%, but finished the month near where it began at 4.21%. Why? Inflation reacceleration worries offset economic growth concerns. Regarding growth, a softer-than-expected rebound in consumer spending in February did not make up for the slump in consumer spending in January. Consequently, first quarter GDP growth may register an annualized rate between 1% and 2%, the softest quarterly reading in three years. Sluggish growth estimates pushed down U.S. Treasury yields. However, more persistent price pressures pushed yields up, or at least kept yields higher than they otherwise might have been. The personal consumption expenditures (PCE) price index registered a 0.4% rise in February, the fastest one-month increase in core inflation in over a year. Tariffs add upside risk to inflation in the near term and will impact growth prospects overall.

Which pressure will win out: growth risks pushing yields to the downside or inflation risks pushing yields higher? The U.S. still may be able to eke out positive growth for 2025. Despite the monthly volatility, consumer spending is still rising at a healthy year-over-year rate of 2.7% in February, driven by solid real income gains. If the labor market holds up, continued wage gains will support spending regardless of political uncertainties.

Amid elevated uncertainty, the Federal Reserve held the federal funds rate steady at 4.375% again at the March Federal Open Markets Committee (FOMC) meeting, with policymakers content to wait for more "clarity" before making their next move. While uncertainty characterized the March Fed meeting, we did receive an update on the Fed's key economic projections. The March Summary of Economic Projections showed that the median policymaker expects slower economic growth (1.7%Q4/Q4versus 2.1% previously), a higher unemployment rate (4.4% from 4.3%), and, most importantly, "no further progress on core inflation" in 2025 (2.8%versus 2.5%). Apart from projections, Federal Reserve Chair Jerome Powell's words guided what we can expect from the Fed regarding reactions to incoming data. Powell stated, "If inflation were to fall unexpectedly, [the Fed] can ease [policy] accordingly." For investors, further improvement in core inflation compared to current policymaker projections could lead the Fed to cut more than expected in 2025, leading interest rates lower.

Tariffs will serve as a significant tax hike on consumers and a massive uncertainty shock to businesses, weighing on spending and investments. Since the April 2nd tariff announcements, Payden has lowered our 2025 GDP estimate to 1% from 1.5% (and from 2% at the start of the year). Consequently, our base case for the economy for 2025 is now a "Sub-par" growth scenario, with a probability of 50%. We also lowered the probability of a "trend-like" growth scenario to 10%. We raised the total probability of a recession to 40%; of that 10% probability of stagflation and 30% probability of a garden variety downturn. In aggregate, downside risks (40%) outweigh upside tail risks (10%), which has been our view all year. The labor market is teetering in a "low fire, low hire" equilibrium. Separations (layoffs and quits) remain low, but hiring is slowing. Either layoffs spike (possibly due to federal layoffs and corporate skittishness) or hiring slows faster than expected, resulting in higher unemployment. Core inflation will spike higher than previously anticipated due to tariffs, but we stand by our call that investors should ignore the price "pop." Higher unemployment and weaker growth will counterbalance the near-term price spike, and services-heavy core inflation will moderate later this year and next. We now see the Fed cutting rates four times in 2025 (the same number we started the year with). The Fed is beset by inertia, and until the labor market cracks, policymakers will stay on hold to keep inflation expectations in check.

Short-Term Bond Fund ("STBF")

Fixed income returns were positive across all sectors in March, despite spread widening, as short-term yields generally decreased. The STBF posted a +0.38% total return[1] for March, modestly below the benchmark ICE BofA 1-3 Year US Treasury index of +0.47%. Fiscal year-to-date, the STBF has returned +1.75% versus 1.53% for the benchmark.

The STBF remains well-positioned as we continue to favor a high-quality tilt in a diversified mix of credit, with ample liquidity, and a neutral duration position. The STBF is poised to potentially outperform shorter, money market-like options during 2025 as the Fed considers cutting rates, as it appears the market is too conservative in pricing in Fed rate cuts during the year ahead. This provides opportunity for positive bond price performance in addition to the attractive income return offered by the STBF.

[1] *Net Asset Value calculated by custodian UMB. Net of fees.*

The corporate and securitized markets showed signs of stress for the first time since summer 2024. Both sectors saw widening spreads, albeit in a very orderly fashion as each sector had very strong issuance over the quarter. We optimized positioning through new issue when it made sense, but more recently passed on deals where we believed valuations were too tight. We continue to be selective in our recommended allocations to both sectors, and still believe that both sectors should still provide additional return over Treasuries over the next three to six months. Given the uncertain nature of domestic and global policies, we remain biased towards liquidity and higher quality, as current risk premiums do not warrant additional risk.

The STBF is assigned Fitch rating agency's highest Fund Credit Quality Rating and Fund Market Risk Sensitivity Rating of AAAf/S1. The net 30-Day SEC Yield for the fund was 4.22% at month end, compared to 4.31% as of 2024-year end. The liquidity of the fund is strong, with 29% of funds invested in Treasuries and government related securities. The fund received $19 million in contributions in March.

Day to Day Fund ("DtD Fund")

The Florida Trust Day to Day Fund posted a total return of +0.38% in March, compared to the benchmark ICE BofA Three-Month Treasury Index return of +0.33%. Fiscal year-to-date, the DtD Fund has returned +2.33% versus 2.21% for the benchmark. The net 7-day SEC yield of the Day to Day Fund was 4.43%, compared to 4.52% at 2024-year end. Comparable prime institutional government funds had an average yield of 4.05% on 3/31. The Fund continues to provide safety, income, and liquidity of investments in a stable, $1 NAV Fund.

We continue to diversify credit exposure by investing in high-quality commercial paper ("CP"), Yankee CDs ("YCDs"), and money market tranches of ABS, and municipal variable rate demand notes ("VRDNs") as we search to maximize yield without adding volatility or sacrificing liquidity. As we march toward a potential debt ceiling expiration this summer, we will look to avoid Treasury bills maturing around any given date. While we look to maximize credit sector investments in the fund, we have kept the maturity profile shorter as historically tight spreads do not compensate to merit a longer maturity. The fund holds a 37% allocation to floating rate notes - our outlook for potentially more rate cuts has not diminished our demand for these securities. Investors remain well compensated by additional yield to offset potentially lower rates in many highly rated sectors, especially if the Fed remains on hold and investors can reap high floating rate coupons for longer periods of time.

The fund remains highly liquid with approximately 41% of the portfolio invested in overnight and short-term securities. Another 27% of the portfolio is invested in government or government guaranteed securities, also enhancing liquidity. The weighted-average maturity of the portfolio is currently 17 days. The fund processed over $145 million in flows in March, ending with ~$58 million net outflows. The fund is assigned Fitch rating agency's highest Money Market Fund Rating of AAA mmf.